

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58088

CITY OF ANACORTES

Skagit County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: March 14, 1997

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CITY OF ANACORTES
Skagit County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

Mayor and City Council
City of Anacortes
Anacortes, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of the City of Anacortes, Skagit County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 22, 1996.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the city's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests indicated that, with respect to the items tested, the city complied, in all material respects, with the applicable laws and regulations referred to in the preceding paragraphs. However, we noted instances of noncompliance of regulatory requirements immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 22, 1996

CITY OF ANACORTES
Skagit County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The Annual Report Should Be Prepared And Submitted Within The Prescribed Reporting Period

The 1995 financial statements of the City of Anacortes were not completed until October 1, 1996.

RCW 43.09.230 states in part:

The State Auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

Delays in preparation of the city's annual report were primarily due to the implementation of a new software system.

When financial reports are not prepared and filed as required, the users of these reports are denied access to the agency's financial information. In addition, the delay in the reconciliation and preparation of the financial statements hinders the timely discovery and correction of errors. Furthermore, when the information provided in the city's financial statements and schedules is not available in a timely manner, audit time and costs are increased.

We recommend accurate annual reports be prepared and submitted within the prescribed reporting period.

Auditee's Response

The Annual Report late-submittal finding was due, as noted in the audit report, to the implementation of a new software system. In August 1995, the City made a total transitional change from a mainframe-based custom-programmed financial system to a PC-network-based system using new packaged (EDEN) software. A combination of both software and hardware learning, transitioning, and debugging precluded timeliness on our part. We sincerely appreciate the State Auditor's Office's patience and understanding of the magnitude and difficulty of a total hardware - software change. The 1996 annual report should fare much better in timeliness.

The 1995 audit performed by your office was accomplished in a very professional manner. Your findings were relevant, and your additional recommendations very helpful. Thank you.

2. Internal Controls Should Be Improved In The Municipal Court

During our audit of the City of Anacortes Municipal Court, we noted the following internal control weaknesses:

- a. Duties among cashiers lack adequate segregation and management oversight. Accounting functions are being performed by all court cashiers with unlimited computer screen access. As a result, employees may perform all aspects of any particular case without any check or balance.
- b. The Municipal Court had not generated any of the reports required by the Office of the State Auditor since they first went on line with the District Court Information System (DISCIS) in 1992.
- c. The trust account had not been reconciled for nearly two years.
- d. Separate accountability was not maintained for the three cash drawers used in the Municipal Court department. The contents of each drawer was combined and deposited without the benefit of individual reconciliations.
- e. Policies and procedures for the Municipal Court accounting system have not been established.

RCW 43.09.200, which prescribes the system of accounting for local governments, states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

The *Budgeting, Accounting and Reporting System* (BARS) manual at Vol. 1, Pt. 3, Ch. 1, pg. 23 states in part:

To reduce the risk of error, waste, or wrongful acts or to reduce the risk of them going undetected, no one individual should control all key aspects of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

BARS Vol. 1, Pt. 3, Ch. 1, pg. 24 states in part:

Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree.

These conditions exist because the Municipal Court has not implemented adequate internal controls over the cash receipting system.

The lack of accounting procedures, internal controls, and management review within the Municipal Court results in the following effects.

- a. Without the proper segregation of duties, assignment of accountability over specific duties is impossible and the city is at a higher risk of a loss or misappropriation of funds.
- b. Without the prescribed DISCIS reports being generated, a documented record does not exist. This limits appropriate management review and allows errors or irregularities to exist without being detected in a timely manner, if at all.
- c. Without performing the appropriate reconciliations, the Municipal Court cannot detect and correct errors and irregularities.
- d. Without individual reconciliations of each cash drawer, assigning accountability to individuals is not possible.
- e. Without adequate accounting policies and procedures in place, the court cannot adequately safeguard funds and account for court revenues.

We recommend city officials implement controls in the Municipal Court to ensure municipal funds are adequately safeguarded and accounted for. We further recommend the court reports be generated, retained, and adequately reviewed.

Auditee's Response

The court finding related to lack of adequate segregation and management oversight regarding duties among court cashiers. It is difficult to segregate the functions in that often times only one court clerk is on duty. We will be producing the necessary district court information system report and those will be reviewed by a representative of the finance department to provide adequate oversight and to provide a check and balance.

The court is now and has been for several months generating the reports required by the state auditor relating to the district court information system (discis). These reports will be reviewed by an individual within the finance department to ensure compliance and as a separate check and balance.

The trust account has been reconciled and will continue to be reconciled on a monthly basis in the future.

Separate accountability is being maintained for the three cash drawers used in the municipal court department and each cash drawer is separately balanced prior to the contents of each drawer being co-mingled with the contents of other drawers.

Policies and procedures for the municipal court accounting system are being established by the City of Anacortes finance department.

3. Internal Controls Over The Cash Receipts System Should Be Improved At The Parks Department

During our review of the City of Anacortes Parks Department cash receipts system we noted the following internal control weaknesses:

- a. Accountability for cash is not maintained when it is transferred from person to person. Cash collected at the camp sites is not counted in the presence of two people when it is turned over to the park office. The same weakness exists when the cash is turned over to the finance office.
- b. Several park office employees work out of a single cash drawer. The cash drawer is unlocked and accessible to all employees.
- c. The parks office is not depositing on a regular basis. In addition, shower and laundry revenues were not collected or deposited for several months.
- d. Due to inadequate documentation, intactness of deposits could not be determined. The correct date and mode of payment are not indicated on the receipts written at the camp sites. When a batch of these receipts are turned in to the park office, the receipt numbers within the batch are not noted on the receipt written by the park office. Without an adequate audit trail, no assurance can be given that all revenues due to the city have been received.
- e. The parks department has not established formal policies and procedures for the collection of cash and receipting functions. As a result, procedures performed lack consistency.

The Washington State Constitution, Article XI, Section 15 requires prompt deposit of public funds as follows:

All moneys, assessments and taxes belonging to or collected for the use of any county, city, town, or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer or other legal depository to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

RCW 43.09.200 which prescribes the system of accounting for local governments states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

The *Budgeting, Accounting and Reporting System* (BARS) manual at Vol. 1, Pt. 3, Ch. 1, pg. 23 states in part:

To reduce the risk of error, waste, or wrongful acts or to reduce the risk of them going undetected, no one individual should control all key aspects of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

BARS Vol. 1, Pt. 3, Ch. 1, pg. 24 states in part:

Access to resources and records is to be limited to authorized individuals and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree.

Management was unaware of the extent of the internal control weaknesses relating to the cash receipts system. There has been some change in personnel duties resulting in variances in the manner in which cash receipting is performed.

As a result of the internal control weaknesses, there is an increased risk of errors or irregularities occurring without being detected in a timely manner, if at all. In addition, no assurance can be given that all revenues due to the city have been received.

We recommend the city improve internal controls over cash receipts by implementing the following:

- a. Cash should be accounted for each time custody is transferred by counting it in the presence of two people and immediately issuing a receipt for the amount on hand.
- b. Separate cash drawers should be maintained for each cashier. Access to the cash drawers should be limited to the cashier responsible for it.
- c. The park office should be collecting and depositing money in a timely manner.
- d. The correct date and mode of payment should be indicated on all receipts. Deposits made by the park office should be easily traced to the receipts from which they originated.
- e. The parks department should establish formal policies and procedures for the cash collection and receipting functions.

Auditee's Response

The Parks Department will closely look at the "path" for all money we collect. We will cut down on the number of transfers where possible and a receipt will be issued for each transfer.

The Parks Department will limit the access to the cash drawer to those responsible for it by installing a locking system that is reasonably used and kept locked at all times.

The Parks Department will look at its collection deposit process and make deposits in the most timely and efficient manner possible.

The Parks Department will take measures to ensure that deposits made by the Parks office can be easily traced to the receipts from which they originated.

The Parks Department will work with the Finance Department in establishing overall City policies for the cash collection and receipting functions.

Auditor's Concluding Remarks

We wish to thank the City of Anacortes for their written responses and to acknowledge their efforts to comply with our recommendations. We will review the status of the city's compliance with our recommendations as part of the next regularly scheduled audit.

We would like to take this opportunity to express our appreciation for the assistance and cooperation we received throughout the audit.

CITY OF ANACORTES
Skagit County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor and City Council
City of Anacortes
Anacortes, Washington

We have audited the accompanying general-purpose financial statements of the City of Anacortes, Skagit County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Anacortes, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types and nonexpendable and similar trust funds for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

October 22, 1996